

## **FAVR PROGRAM INFORMATION**

### **DEFINITIONS:**

1. **FAVR Allowance.** A FAVR allowance includes periodic fixed payments and periodic variable payments. The City may maintain more than one FAVR allowance. If an employee is covered by the FAVR allowance for less than the entire calendar year, the annual business mileage may be prorated on a monthly basis.
2. **Periodic Fixed Payment.** A periodic fixed payment covers the projected fixed costs (including depreciation or lease payments, insurance, registration and license fees, and personal property taxes) of driving the standard automobile in connection with the performance of services as an employee of the City in a base locality, and must be paid at least quarterly. A periodic fixed payment may be computed by (a) dividing the total projected fixed costs of the standard automobile for all years of the retention period, determined at the beginning of the retention period, by the number of periodic fixed payments in the retention period, and (b) multiplying the resulting amount by the business use percentage.
3. **Periodic Variable Payment.** A periodic variable payment covers the projected operating costs (including gasoline and all taxes thereon, oil, tires, and routine maintenance and repairs) of driving a standard automobile in connection with the performance of services as an employee of the City in a base locality, and must be paid at least quarterly. The rate of a periodic variable payment for a computation period may be computed by dividing the total projected operating costs for the standard automobile for the computation period, determined at the beginning of the computation period, by the computation period mileage. A computation period can be any period of a year or less. Computation period mileage is the total mileage (business and personal) the City reasonably projects a standard automobile will be driven during a computation period and equals the retention mileage divided by the number of computation periods in the retention period. For each business mile substantiated by the employee for the computation period, the periodic variable payment must be paid at a rate that does not exceed the rate for that computation period.
4. **Control Employee.** An elected official, or an employee whose compensation equals or exceeds the compensation paid to a Federal government employee at Executive Level 5.
5. **Base Locality.** A base locality is the particular geographic locality or region of the United States in which the costs of driving an automobile in connection with the performance of services as an employee of the employer are generally paid or incurred by the employee. Thus, for purposes of determining the amount of fixed costs, the base locality is generally the geographic locality or region in which the employee resides. For purposes of determining the amount of operating costs, the base locality is generally the geographic locality or region in which the employee drives the automobile in connection with the performance of services as an employee of the employer.
6. **Standard Automobile.** A standard automobile is the automobile selected by the City on which a specific FAVR allowance is based.
7. **Standard Automobile Cost.** The standard automobile cost for a calendar year may not exceed 95 percent of the sum of (a) the retail dealer invoice cost of the standard automobile in the base locality, and (b) state and local sales or use taxes applicable on the purchase of such an automobile. Further, the standard automobile cost may not exceed value limits as set forth in applicable internal revenue procedures.
8. **Annual Mileage.** Annual mileage is the total mileage (business and personal) the City reasonably projects a standard automobile will be driven during a calendar year. Annual mileage equals the annual business mileage divided by the business use percentage.
9. **Annual Business Mileage.** The mileage a payor reasonably projects a standard automobile will be

driven by an employee in connection with the performance of services as an employee of the employer during the calendar year, but may not be less than 6,250 miles for a calendar year. Annual business mileage equals the annual mileage multiplied by the business use percentage.

10. Official City Business. Official City business is defined as the performance of duties that are necessary to the operation of the City and within the scope of assigned responsibilities.
11. Business Use Percentage. A business use percentage is determined by dividing the annual business mileage by the annual mileage. The business use percentage may not exceed 75 percent.
12. Retention Period. A retention period is the period in calendar years selected by the City during which the City expects an employee to drive a standard automobile in connection with the performance of services as an employee of the employer before the automobile is replaced. Such period may not be less than two calendar years.
13. Retention Mileage. Retention mileage is the annual mileage multiplied by the number of calendar years in the retention period.
14. Residual Value. The residual value of a standard automobile is the projected amount for which it could be sold at the end of the retention period after being driven the retention mileage.

#### ALLOWANCE LIMITS:

1. A FAVR allowance may be paid only to an employee who substantiates to the City for a calendar year the minimum qualified miles driven in connection with the performance of services as an employee of the City of Duluth. IRS Regulations prohibit payment of any FAVR allowance to an employee who has not substantiated at least 5,000 miles driven yearly in connection with the performance of services as an employee for the City of Duluth.
2. A FAVR allowance may not be paid to a control employee.
3. At no time during a calendar year may a majority of the employees covered by a FAVR allowance be management employees.
4. At all times during a calendar year at least five employees of an employer must be covered by one or more FAVR allowances.
5. A FAVR allowance may be paid only with respect to an automobile (a) owned or leased by the employee receiving the payment, (b) the cost of which, when new, is at least 90 percent of the standard automobile cost taken into account for purposes of determining the FAVR allowance for the first calendar year the employee receives the allowance with respect to that automobile, and (c) the model year of which does not differ from the current calendar year by more than the number of years in the retention period.
6. A FAVR allowance may not be paid with respect to an automobile leased by an employee for which the employee has used actual expenses to compute the deductible business expenses of the automobile for any year during the entire lease period.
7. The insurance cost component of a FAVR allowance must be based on the rates charged in the base locality for insurance coverage on the standard automobile during the current calendar year without taking into account such rate-increasing factors as poor driving records or young drivers.
8. A FAVR allowance may be paid only to an employee whose insurance coverage limits the automobile with respect to which the FAVR allowance is paid are at least equal to the insurance coverage limits used to compute the periodic fixed payment under that FAVR allowance.

#### FORMS:

1. FAVR Program Enrollment Form: The department/agency uses this form to begin the process of placing an employee on the FAVR program. Forms are available from the Fleet Services Division. Employee completes the form and submits to Fleet Services.
2. New Driver Checklist Form: A fleet services representative uses this form to provide orientation and enrollment of new FAVR program participants.
3. Monthly Mileage Form: Employee uses this form to report required information on business miles each month. Employee sends the completed form to the Auditor's Office and gives a copy to his/her immediate supervisor.
4. Notice of FAVR Plan Status Form: The Fleet Manager sends this notification to the department director to notify a plan participant of noncompliance and to provide for a request for approval and justification for continuation on the FAVR program.